

FIRE PENSION BOARD MINUTES
Wednesday, November 18, 2020 – 9:30 a.m.
City Hall, Council Chambers, Vero Beach, Florida

PRESENT: Charles Zokvic, Chairman; Henry Losey, Secretary/Treasurer; Member: Kent Middleton **Also Present:** Heather McCarty, Records Retention Specialist

1. CALL TO ORDER

Today's meeting was called to order at 9:30 a.m.

2. AGENDA ADDITIONS AND DELETIONS

None

3. ELECTION OF OFFICERS

A) Chairman

Mr. Losey made a motion that Mr. Zokvic remain Chairman. Mr. Middleton seconded the motion and it passed unanimously.

B) Secretary/Treasurer

Mr. Middleton made a motion that Mr. Losey remain Secretary/Treasurer. Mr. Zokvic seconded the motion and it passed unanimously.

4. APPROVAL OF MINUTES

A) August 19, 2020

Mr. Losey made a motion to approve the August 19, 2020 Fire Pension Board minutes. Mr. Middleton seconded the motion and it passed unanimously.

5. PUBLIC COMMENT

None

6. REPORTS

A) Highland Capital Management

1. Quarterly Report

Mr. Todd Wishnia, with Highland Capital, said that they closed out the quarter with the worst September in a decade. He talked about some of the issues that have been

affecting the economy. He pointed out that they did see some sector rotation from the previous top performing groups. He said they are starting to see some improvements within the economy and perhaps the beginning of a new cycle. He commented that the resurgence of COVID really hurt the energy sector.

Mr. Wishnia went to their Investment Review report for the period ending September 3, 2020 (on file in the City Clerk's office). He went over the Total Return Summary and Asset Allocation charts on page 11. He talked about the Domestic Equity Sector Allocation vs. R1000V on page 13. He reviewed the quarter and the fiscal year to date (FYTD) numbers for the different sectors shown on page 12, Performance Returns for Various Periods. He said they have already talked about the lack of growth pretty much being the reason that their overall portfolio came out the way it did.

Mr. Wishnia reviewed that for the first quarter of the year, value was down -26% and growth was down -14%. In the second quarter of the year, value bounced back and was up 14.3%, while growth was up 27%. He said they missed out on a lot of that, which led to the discussion of what they can do going forward. He said after the last meeting, they took \$250,000 out of value and added it to some growth stocks, as they had discussed. Moving forward, what he thinks would be a good plan is to continue to add and keep about a 70-30 weighting in their domestic equity. He suggested taking another \$250,000 and adding it to the growth portfolio and then at the beginning of the year or after their next meeting, adding another \$250,000. He explained he thinks this puts them in a position for future rotations to give them that exposure to some of the tech stocks.

Mr. West asked how the value strategy is doing relative to the benchmark. Mr. Wishnia answered that the value benchmark is up about 12% as of Monday and their value portfolio is up 11.5%; the overall portfolio is up 8.6% and the S&P is up 8%. He added that right now, having the value is really benefiting the portfolio. He said with talk of more COVID cases arising and more shutdowns, they don't know what is going to happen in the future. He said he would not want to go with a 50-50 split, but he thinks 70-30 is a good plan. He added that as they monitor the economy and what is happening, they can make changes and Mr. West could tell them to add or subtract from growth to value if they decide to move in that direction.

Mr. West said under the current portfolio with the structure with Salem Trust, there is one (1) domestic equity account and the Board wants them to have full discretion over the management of their assets. He would recommend that they have full discretion and move accordingly. He said they don't have to set up any separate accounts. He said he thinks this is reasonable from his third-party perspective.

2. Discussion of Stock Audit – Requested by Chairman Zokvic

Mr. Wishnia said when he sends the appraisal every month, he could split the appraisal into value and growth so they can see which stocks are under value or growth.

The Board agreed they would like to see them split out.

Mr. Middleton questioned the China stocks that they have. Mr. Wishnia answered that what they have would be all ADR's, which would not be bought in China, but rather be American Depositories based here. He added that he doesn't see them getting rid of what they have. He referred to page 8 in their report, International Equity Country Allocation, pointing out that China was currently at 8.4%.

Mr. Middleton expressed his concern with everything that is going on.

Mr. Zokvic said they set up guidelines to give Highland the authority to do different things so he thinks as long as they stay within the guidelines, it is okay.

Mr. Wishnia said new additions they will see with the growth index consists of mainly health care, technology and consumer discretionary, such as Amazon, Home Depot, and McDonalds. He explained they only took \$250,000 out of value which is why the percentages of the overall portfolio are going to be very low.

Mr. Wishnia said he had one (1) additional item, and that is an addendum to the fees (on file in the City Clerk's office). He said they are currently at 50 basis points and they are going to leave equity at 50 basis points and lower the fixed income fees to 25 basis points. He added they are doing that across the board with their clients.

Mr. West said he has spoken with them about this and he feels it would be appropriate to separate them. He commented that he thinks it is a nice concession coming from Highland Capital and makes them more competitive.

Mr. Zokvic said he would like to run it by their Attorney to make sure he is okay with it.

Mr. West said that he wants to confirm with Mr. Wishnia that their Manager Investment Policy Statement (IPS) they recently redid is reflective of that arrangement because he thinks they are going to have to change the benchmark they are using. He said they will get together with them and make sure the document is 100% reflective of that so when they apply the measurement to that, it is an accurate and fair measurement. He added if they need to make any changes, they will get it done and have it ready for the next meeting.

Mr. Losey made a motion to have their Attorney review the Fee Addendum and if he is okay with it, to have the Chairman sign the Addendum. Mr. Middleton seconded the motion and it passed unanimously.

Mr. West reviewed that they currently have three (3) manager polices for Highland, one (1) for International, which is good; one (1) that monitors bonds and that is good; and the one (1) in play, which oversees the domestic equity portfolio. His recommendation is that they change that benchmark going forward to the S&P 500 index, which is the master policy benchmark. He said if they are good with that change, they will make the

change. He is asking for the Board approval to accept their advisor's recommendation to change Highland's benchmark with regards to domestic equity only from the S&P 500 from the Russell 1000 value index.

Mr. Wishnia asked if this affects the ones they signed off last quarter. Mr. West answered yes, they just need to modify to the S&P 500 and they will be good to go.

Mr. Wishnia suggested they make the effective date October 1st. Mr. West said he would make that change and circulate it for signatures.

Mr. Losey made a motion to change the Highland domestic equity manager policy benchmark to the S&P 500 from the Russel 1000 value index effective October 1st. Mr. Middleton seconded the motion and it passed unanimously.

B) Salem Trust

1. Class Action report

Mrs. Karen Russo, with Salem Trust, referred to their Class Action report for the quarter ending September 30th and said there is nothing much to report (on file in the City Clerk's office). She said there were no claims filed and no settlements received in the quarter.

Mrs. Russo mentioned that since their last meeting, they have received their State contributions and they have been posted to their account.

Mrs. Russo said her last item to discuss is the insurance deductions for the Retirees. She reviewed that monthly process. She explained that several Retirees contacted Mr. Ann Rankin, with Indian River County, saying they had received a cancellation notice. She noted that all of the Retirees did receive a cancellation notice as of September 30th. They are working with TASC and reviewing what happened and looking at their system.

Mr. Zokvic pointed out that this has happened every year since they took over. Mrs. Russo agreed and said the last time it happened was in May. She said they are letting them do their research and then will see what they are going to do about it so it doesn't happen again. One (1) of her suggestions to Ms. Rankin, which she also suggested when they first signed with TASC, was to do ACH instead of checks. Then Ms. Rankin would do a spreadsheet to give to TASC on how to apply the ACH payments they receive. She said that TASC was not willing to do that before but they are going to talk to them about that again. She added that Ms. Rankin is willing to do the spreadsheet to give them every month.

Mr. Losey commented that this is first time he received the notice that his insurance was cancelled.

Mr. Zokvic said in May when this was discussed, he thought that TASC could not cancel their insurance and only the County could. He said they need to get this straight because once or twice a year, someone receives a cancellation notice.

Mr. Losey pointed out that this time, they were actually cancelled.

Mrs. Russo thinks it would be better if they switch to ACH. Ms. Rankin is working with them to get it resolved and will be copying the City and the Chairman on everything so everyone is in the loop.

C) AndCo Consulting

1. Quarterly Report

Mr. West stated that this is a very disappointing return year for this Plan. He said they covered most of the issues at the last meeting and their shops have since worked together to identify where and why the return shortfall occurred and what can be done going forward to hopefully remedy that. He commented he has never seen a market like this in 35 years. He referred to his handout to highlight the things that are most important (on file in the City Clerk's office). He went over the page, S&P 500 index Market Leadership, and reviewed the Rolling Excess Performance chart on the other page in the handout. He said that historically, the Portfolio has emphasized value very successfully over time, but this year was devastating to returns that were limited to that strategy. So that led to these discussions about how much should they change, when do they want to change, and what can they do to avoid this down the road. He said he has an optimistic view as far as the market going forward. He talked about some of things that are currently going on and things he sees coming, observationally he said building a case for a good economy in 2021. He thinks Highland's recommendation and approach and with them having discretion on how much value and growth they have and to be able to adjust accordingly sets them up good for the future.

Mr. West referred to their Investment Performance Report for the period ending September 30, 2020 (on file in the City Clerk's office). He reviewed the Schedule of Investable Assets chart shown on page 14 that went back to 1990, pointing out that what they have done in the past has been very successful. He reviewed the charts on page 23, Performance Review Total Fund. He talked about page 2, Major Market Index Performance, going over the Quarter Performance chart and the 1-Year performance chart. On page 10, Asset Allocation Compliance, he pointed out the real estate allocation is out of the policy allocation range, but there is nothing else they can do. They have submitted the redemption request and taken the appropriate actions to get into their queue.

Mr. West reviewed pages 15 and 16, Comparative Performance Trailing Returns, going over the quarter and fiscal year performance numbers. He noted they have an exceptional real estate manager, with their FYTD being up 4.41% compared with the industry average at 1.73%. Since the inception for real estate, they provided an

annualized return of 12.45%, versus their peer group, which was 10.37%. For the Financial Reconciliation Quarter to Date on page 17, he reported that they started the quarter with \$6,747,536 and ended on September 30, 2020 with \$7,056,835. He concluded by saying that he is comfortable with the solutions going forward and will modify the IPS so they can accurately measure what those changes represent.

7. NEW BUSINESS

A) Approval of 2021 Meeting Dates

The Chairman read the meeting dates as presented in their backup (on file in the City Clerk's office).

Mr. Losey made a motion to approve the 2021 meeting dates as presented. Mr. Middleton seconded the motion and it passed unanimously.

8. OLD BUSINESS

Mr. Middleton questioned what would happen if one (1) of them couldn't attend a meeting. Mr. Zokvic answered then there would be no meeting, which is why they need to find a fourth and fifth member. He commented that most people don't want to donate their time to something they don't benefit from.

Mr. Middleton brought up having his wife, who was a banker, on the Board.

The Board had a discussion about the need to find another Board member and the conflict with having Mr. Middleton's wife serve on the Board.

Mr. Zokvic added that nobody wants to fill out a financial disclosure form, which hinders them also.

9. CHAIRMAN'S MATTERS

None

10. MEMBER'S MATTERS

None

11. ADJOURNMENT

Today's meeting adjourned at 10:48 a.m.

/hm